

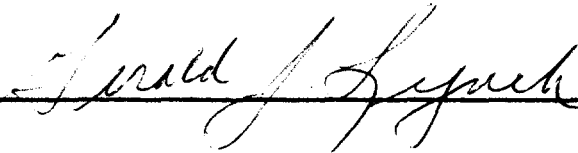
The Implications of Raising the Retirement Age as a
Solution to the Crisis Facing
Social Security

An Honors Thesis (ID 499)

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America is experiencing a dramatic demographic change that may seriously alter American institutions before the beginning of the twenty-first century. As we approach the turn of the century, the number of senior citizens will begin to grow much more quickly than any other sector of our population. Today, twenty-two million Americans (about 10.5 percent of our population) are sixty-five or older. By 2000 more than thirty million United States citizens will be over sixty-five. This sector of the population will continue to swell in relation to other age groups under the influences of the post-World War II baby-boom, increasing life expectancies, and declining fertility rates.

This demographic shift will have serious implications on ⁶⁰² the Social Security system. As the aged sector of our population grows, younger Americans still in the work force will bear an increasing tax burden, and eventually, assuming the Social Security system remains basically unchanged, the tax burden will swell to an untenable amount. To avoid oppressive tax rates, a great many experts propose raising the age at which Social Security benefits become available to laborers, which in effect raises the expected retirement age. Although this solution would alleviate the impending exorbitant tax rates, merely to implement this solution without considering the numerous implications of this action is foolhardy. The purpose of this paper

is to examine the long-term problem facing the Social Security system and the feasibility of implementing a later retirement age as a solution to this problem. By exploring prevalent social attitudes, the effects of Social Security on retirement, and the productivity of the elderly, the feasibility of raising the retirement age will be analyzed. In addition, the problems facing elderly workers and management if the retirement age goes up will be described. Only after careful consideration of these critical topics can one evaluate the proposal of raising the retirement age as a solution to the coming Social Security crisis.

Causes of the Demographic Shift

During the period immediately after World War II, the fertility rate in America soared, reaching an average rate of 3.69 children per woman by the mid-1950s. This period is often referred to as "the baby-boom," and in the beginning of the twenty-first century those born during the baby-boom will begin retiring. The baby-boom will become "the graying-boom," forcing the number of Americans over sixty-five to mushroom to the highest level in our history.

Adding to the demographic ramifications of the baby-boom is the recent trend toward increased life expectancy in America. The new generation of health-oriented Americans who take advantage of the ever-growing list of health care opportunities and technologies are going to live substantially longer than their ancestors. In 1940 the average life expectancy of an American man was 77.1 years, while an American woman could expect to live 78.6 years,

based on statistics provided by the National Center for Health Statistics. Today, males are expected to live for 79.1 years, and women for 83.2 years. Average life expectancy projections for 2010 based on current trends and technology are 79.8 years for men and 84.3 years for women. Clearly, these life expectancies imply that a growing number of Americans will remain in the over sixty-five age group.

Moreover, increased life expectancies suggest some other important social developments. As the rate of death declines, the number of very old and frail people should increase. These people will require costly medical attention in their advanced ages. Also, the possibility of double-generational retirement grows greater with every increment to the life expectancy. If people retire at age sixty-five and do not die until their eighties, both parents and their children may be retired at the same time. Such a development creates an interesting sociological question: If retired parents look to their children for financial and social support, who will support them when their children retire too? Both of these developments indicate that with increasing life expectancies, it is likely that the monetary burden on our social insurance programs will increase.

While the baby-boom and increased life expectancies will increase the number of elderly Americans, the falling fertility rates of the past decades and the projected future should highlight the "Graying of America"¹ by reducing the number of Americans

¹Judith Schonbak, "Changing Demographics: the Effect on Pensions," Pension World, March 1980, p. 54.

in other age groups. A continuous decline in the fertility rate since the end of the baby-boom in the late 1950s has made the group of Americans aged thirty to fifty the largest portion of our population. The fertility rate has declined dramatically from 3.69 children per woman in the mid-1950s to a scant 1.78 children per woman in 1978. Many demographers anticipate future fertility rates to remain somewhere near two children per woman, which is still well below the birth rate of the baby-boom.

Nature of the Long-Term Problem Facing
the Social Security System

The effects of the demographic change may be clearly appreciated by studying a ratio of the number of Americans between the ages of twenty to sixty-five to the number of Americans over age sixty-five. Such a computation is called a support ratio, since it reflects the number of working persons (aged twenty to sixty-five) who will support one retired person (over sixty-five years old). It may be inaccurate to assume that all people of twenty to sixty-five years of age are working, productive members of society; therefore, the actual support ratio may be lower than the computed figures. In 1950 the support ratio was seven to one, indicating that there were seven laborers for each retired person. By 1970 the ratio had already decreased to 5.15 to one, and assuming an optimistic 2.1 fertility rate in 2000, by 2035 the ratio will fall to only 2.82 to one.

These figures indicate a serious future crisis for the Social Security system. As the turn of the century approaches, the shrinking labor force will be asked to support a growing

number of retired individuals. But the real catastrophe will strike in the first half of the twenty-first century when the baby-boom turns into the graying-boom. The number of retired Americans will skyrocket while the American labor force will shrink dramatically, suffering from the barren decades of lower birth rates as well as the loss of those born in the baby-boom.

Gardner Ackley, a member of the 1979 Social Security Advisery Council points out the implications of the graying of America on the Social Security system:

Since Social Security is, and essentially must be, a pay-as-you-go system, it is clear that unless significant changes are made, workers below age sixty-five will in the future have to bear an increasingly large tax burden to support benefits for those retiring at age sixty-five.²

Projections based on assumptions published by the Social Security Administration illustrate Ackley's concerns for the future tax burden of Social Security. Every year the Social Security Administration issues a set of three scenarios that project future economic and demographic developments. The three projections are labeled optimistic, intermediate, or pessimistic. Under the most recent intermediate assumptions the support ratio by the year 2030 will decline to 1.9 to one and remain constant thereafter. These intermediate assumptions include a moderate rate of growth in life expectancy and a moderate increase in fertility. Yet, many experts feel that the newest intermediate assumptions are overly optimistic. Among the most influential of these experts is Thomas Woodruff, executive

²Gardner Ackley, "Social Security: Raise the Retirement Age and Reduce the Benefit," Dun's Review, February 1980, p. 11.

director of the President's Commission on Pension Policy under President Carter, who sees the pessimistic set of assumptions as more realistic. In the pessimistic scenario the fertility rate continues to fall as it has in all industrialized countries while the life expectancy increases at a rapid pace. The resulting support ratio under the pessimistic assumptions will fall to only 1.5 to one in 2030 and a frightening 1.2 to one in 2050.

By translating these support ratios into the actual tax burden on those in the labor force, the catastrophic proportions of the coming Social Security crisis are clear. Presently, employees and employers each contribute 7.6 percent of payroll to the Social Security system through payroll taxes. Assuming that the costs to the employer are transferred back to the employee through lower wages, the employee actually pays 15.2 percent of his earnings to the Social Security system. Using this type of assumption (the combined effect of employee and employer taxes falls directly on the employee), startling percentages of the payroll will be charged against workers as Social Security taxes in the future, according to the assumptions issued by the Social Security Administration. Under the intermediate assumptions, in 2010, 16.6 percent of payroll will be necessary to finance the Social Security system; in 2030, 25.4 percent will be required; in 2050, 25.0 percent will be assessed against the labor force. The percentages of payroll to be collected by the Social Security Administration under the pessimistic assumptions will be: 21.4 percent in 2010, 36.6 percent in 2030, and 45.3 percent in 2050.³

³Support ratio and payroll percentage figures from a study performed by the National Bureau of Economic Research directed by Michael J. Boskin.

To look at the problem facing Social Security in a different manner, Michael J. Boskin of Stanford University prepared a study estimating the financial deficit faced by the Social Security system over the next seventy-five years if the currently scheduled Social Security tax rate structure is not changed. Boskin based his study on the intermediate assumptions of the Social Security Administration, and he predicted a deficit with a present value (discounted at three percent to the present) of \$885 billion for the Old Age and Survivor's Insurance (OASI) benefits portion of the Social Security system.

Raising the Retirement Age--

A Possible Solution

Obviously, the future of the Social Security system is in great danger. Excessive tax rates like those necessary to meet future needs as predicted by Boskin are surely unacceptable to the vast majority of American laborers. Some action must be taken in order to solve the Social Security crisis before it is too late. William Agee, chairman of the board of Bendix Corporation states:

Procrastinating until the burden forces the breaching of promises will only make the problem worse. Young and old will be pitted against one another in a fearful battle over the remains of a shrinking economy.⁴

One of the most popular suggestions for avoiding the crisis in store for the Social Security system is to raise the age at which employees become eligible to receive Social Security benefits for retirement. For example, many people propose changing

⁴A. F. Ehrbar, "How to Save Social Security," Fortune, August 25, 1980, p. 36.

the retirement age (by raising the benefit age) from age sixty-five to age sixty-eight in 2000, assuming that the reduced amount of benefits to be paid out will easily offset any benefit increases projected due to demographic changes.

Research on the effects of raising the benefit age for the Social Security system conducted by economists at the National Bureau of Economic Research has established that raising the retirement age would eliminate any long-term deficit faced by the OASI portion of the Social Security system. The research group headed by Boskin concluded that raising the retirement age from age sixty-five to age sixty-eight in 2000 would result in a \$200 billion surplus in the OASI fund if currently scheduled payroll tax rates are maintained. Boskin assessed the power of changing the retirement age over the OASI system as follows:

Altering the length of retirement by a single year, by changing either the retirement age or life expectancy, raises or lowers the social security deficit by about \$350 billion.⁵

In reaction to such favorable predictions, the 1979 Social Security Advisory Council has supported a gradual increase in the normal retirement age beginning in 2000. The age would increase by two months every year until the age of sixty-eight is attained. Similar proposals have been offered by the past two Social Security Advisory Councils as well as by President Carter's Commission on Social Security.

Proponents of raising the retirement age often justify their proposals by identifying the implications of the increasing

⁵A. F. Ehrbar, "How to Save Social Security," Fortune, August 25, 1980, p. 36.

life expectancy that we are experiencing on the quality and duration of retirement. Ackley points out:

Given the increased longevity and, especially, the increasing health and strength of persons in their sixties, a person retiring at sixty-eight in the year 2025 will be comparatively younger and healthier, and with the prospect of longer and more active years in retirement than one aged sixty-five today.⁶

Robert Myers, a former chief actuary of the Social Security Administration, defends an increased retirement age by arguing that a man aged 68.9 in 2000 will have a life expectancy equal to the one that sixty-five-year-old men could have expected in 1935 when the Social Security system was created. Myers' contention is more striking when applied to women. The life expectancy for a woman aged 72.5 in 2000 will be equal to the life expectancy faced by sixty-five-year-old women when Social Security began.

The Trend Toward Earlier Retirement

Although raising the retirement age seems to be an effective and justifiable solution to the impending Social Security crisis, current trends in society may indicate that this alternative is not a viable one. In recent years an undeniable trend toward earlier retirement has developed. In the first six months of 1979, 70 percent of those who retired were younger than sixty-five, leaving less than .25 percent of the labor force in the above sixty-five age group. These figures represent a substantial

⁶Gardner Ackley, "Social Security: Raise the Retirement Age and Reduce the Benefit," Dun's Review, February 1980, p. 11.

increase in the number of early retirements from just one year earlier, when only 62 percent of all retired persons were younger than sixty-five. This trend may be reflected more clearly by analyzing the labor force participation rates for men at or near retirement age. In 1947, 89.6 percent of American males aged fifty-five to sixty-four were active in the labor force. By 1962 only 86.2 percent of the men in this age bracket participated in the labor force, and the participation rate dropped to 74.5 percent in 1975. Overall, the labor force participation rate among men aged fifty-five to sixty-four has declined 15 percent since 1950. Based on the established trend, the projected labor force participation rate in 2000 for men in this age group will be 56.7 percent.

Many surveys exist which substantiate the trend toward early retirement. The Social Security Administration conducted a study called the "Survey of Newly Entitled Beneficiaries" in the late 1960s and early 1970s that found that only 9 percent of the retired persons surveyed were forced out of their jobs by mandatory retirement age limits. The remaining 91 percent retired early for personal reasons. These figures are alarming when compared to statistics that the Social Security Administration gathered from similar surveys conducted earlier. In the 1940s only 5 percent of those who retired quit because they simply wanted to, and in 1951 only 3.8 percent of laborers voluntarily left the work force early. The percentage increased during the sixties until nearly 50 percent of those retiring did so voluntarily in 1968. A more recent survey of nine-hundred persons aged forty to sixty-nine revealed that only 7 percent of those surveyed who had

already retired did so under mandatory retirement regulations. The great majority of the participants in the survey responded that they were "just plain tired" of working, and the average age at retirement was sixty-one. Those persons polled who were still employed indicated that they also planned early retirements; in fact, some planned to retire at ages as low as fifty. An interesting aspect of this survey was the profile of the respondents. Most of those people surveyed were professionals, managers, or other types of white-collar workers who generally experienced little physical demand on the job. Keeping this fact in mind, the implications of this survey are even more significant. Those workers least likely to suffer physical detriments due to advancing age overwhelmingly desired to retire early. Moreover, these workers maintained that work was the most important part of their lives; yet, they still wanted to retire early. Sara E. Rix, co-author of The Graying of Working America, interprets this survey in the following manner: "The fact is that older workers presently do not care to delay retirement even to sixty-five, and certainly not beyond."⁷

Experts cite many factors that may contribute to the desire to retire early. The reasons most commonly proposed are health problems and job discontinuance, but recently the availability of adequate retirement income seems to have become one of the most important factors. The preliminary results of the Social Security Administration's Retirement History Study seem to

⁷Sara E. Rix, "Rethinking Retirement-Age Policy in the United States and Canada," Personnel Journal 58 (November 1979): 781-782.

reflect the current reasons for early retirement. The study, which was concluded in 1973, examined the retirement decisions made by male workers who had left the work force since 1969. Nearly half of those men aged sixty-two to sixty-three in 1973 who had retired voluntarily since 1969 cited pension eligibility as a primary retirement motive. Likewise, more than half of those men aged sixty-four to sixty-seven in 1973 who had retired since 1969 indicated that factors other than health or job displacement were responsible for their decision to leave the work force.

Similar research has come to conclusions that identify more distinctly factors influencing the decision to retire early. In 1975 Joseph Quinn directed study of 11,000 workers and retired persons ranging in age from fifty-eight to sixty-three. Quinn found that the most powerful factors leading to early retirement were health and financial considerations, and he discovered an important relationship between the two:

Health and financial considerations are highly interactive. Many people of early retirement age have health problems which are not serious enough to make continued labor force participation less desirable. For these people, who are predisposed to retire, Social Security eligibility is a very important factor.⁸

Another study that analyzed the reasons for early retirement came to similar conclusions. Barfield and Morgan, the authors of the study, summarized their results as follows:

Economic factors provide the basic enabling framework for the retirement decision. If one can afford to retire, then his decision will be affected by his

⁸ Alicia Hardock Munnell, The Future of Social Security (Washington, D. C.: The Brookings Institute, 1977), p. 73.

health and by his attitudes towards work and retirement. But if one feels economically unable to retire, only rather severe problems with (say) health or work may induce retirement.⁹

The Social Security System's Role in

Inducing Early Retirement

The evidence pointing toward the strong influence of future financial security on the retirement decision implicates the Social Security system itself as a potential motivator for early retirement. Four aspects of the Social Security program are primary forces in encouraging early retirement: (1) high income replacement ratios under Social Security benefits, (2) the availability of actuarially reduced benefits, (3) the earnings test, and (4) the conditioning of employees and employers alike to identify sixty-five as the "normal" retirement age.

Probably the most powerful factor influencing the retirement decision found in the Social Security system is the high degree of income replacement available through Social Security benefits. Ever since 1969 the replacement ratio has been increasing, and in 1977 statistics indicated that 58 percent of pre-retirement earnings could be replaced by Social Security benefits for lower-income persons who retired at age sixty-five. Meanwhile, high income workers who retired at age sixty-five in 1977 could count on Social Security benefits to replace up to 31 percent of their pre-retirement income. When looking at these figures, one must consider several other consequences of retirement

⁹Alicia Hardock Munnell, The Future of Social Security (Washington, D. C.: The Brookings Institute, 1977), p. 72.

on living expenses in order to understand fully why retirement looks attractive to those eligible for Social Security benefits. First, Social Security income is tax-free, eliminating all income tax expenses encountered before retirement. In addition, persons over sixty-five are eligible for many programs entitling them to substantial reductions in living expenses, the most important program being Medicare. Besides these two reductions in the cost of living for retired persons, government experts at the Bureau of Labor Statistics estimate that actual living expenses for the average worker decline by 13.6 percent at retirement due to the elimination of work related expenses like transportation and equipment expenses. Thus the actual income replacement ratio under Social Security benefits is even higher than raw income figures indicate in light of the other effects of retirement on the cost of living.

The availability of actuarially reduced benefits is one of the features of the Social Security program that can most obviously be held responsible for an increasing number of early retirements. The program was initiated in November 1956 for women and August 1961 for men. Under the program those laborers eligible for Social Security benefits at age sixty-five are permitted to start collecting benefits as early as age sixty-two if they are willing to accept permanently reduced benefits as a penalty for early payments. The benefit amount is reduced by five-ninths of one percent for each month of benefit collection prior to age sixty-five; thus, the reduced benefits keep the actual costs to the Social Security system the same as if the benefits were not paid until age sixty-five in full. Since the program's beginning in

1961 when more men retired on reduced benefits than on regular benefits, the reduced benefit program has spurred early retirement. In 1975, 50 percent of all workers retired between the ages of sixty-two and sixty-four. Actuarially reduced benefits accounted for 65 percent of the total benefits paid out by the Social Security Administration that year. Today, nearly two-thirds of those men who retire accept actuarially reduced benefits before age sixty-five. The high rate of participation in the reduced benefit program indicates the propensity of workers to retire early, even though they must accept permanently reduced benefits. For example, in 1976 the average reduced benefit was \$191.10 per month which was 10 percent below the average monthly benefit awarded to sixty-five-year-olds who waited for full benefits.

The earnings test is another part of the Social Security system that encourages early retirement. The earnings test is designed to keep those people who are eligible to receive Social Security benefits from earning too much extra income. This function is accomplished by placing a high marginal tax rate on earnings above a certain limit if the worker is also receiving Social Security benefits. For example, in 1976 the Social Security benefit awarded to an eligible worker was reduced by one dollar for every two dollars that he earned in excess of \$2,760 per year (\$230 per month) until the benefit was completely depleted. The Social Security Administration adjusts the earnings test limit annually to keep abreast of the increasing wage rate. Any beneficiaries of the Social Security system who are seventy-two or older are not subject to the earnings test. (Approximately 50 percent of all retirees were older than seventy-two in 1975.)

The earnings test was originally included in the Social Security program to help the system correspond to its guiding philosophy--the Social Security system's purpose is to replace the income of retirees, not to supply an annuity to everyone age sixty-five or over. Although the earnings test does facilitate the enactment of this philosophy, it also provides ample incentive for reduced work activity and retirement. The fact that many persons receiving Social Security benefits and working consistently earn wages within 10 percent below the earnings test limit attests to the influences of the test on work activity.

A New Trend Toward Later Retirement

It is evident that any movement toward raising the retirement age as a solution for the future Social Security crunch will require both a change in attitudes among workers as well as a change in the Social Security system. Those aspects of the system that encourage early retirement must be eliminated while the labor force must accept the reality of a longer work life.

Some experts are predicting that changing opinions among workers concerning longer work lives may already be developing. Driven by the effects of inflation on fixed retirement earnings, many laborers are reversing the trend toward early retirement. In a recent study "four out of ten retired employees say that inflation has seriously reduced their standard of living to some degree."¹⁰ Thus, many workers approaching retirement are doing exactly what John Perham suggests:

¹⁰"Employees Want to Work Past Normal Retirement," Risk Management 26 (April 1979): 78.

Countless workers and their spouses are carefully reevaluating the diminishing appeal of retiring on a pension that constantly dwindles in value.¹¹

In addition to the corrosive effects of inflation on pension incomes, workers are staying on the job in an attempt to maintain a sense of purpose and commitment in their lives. The greater numbers of women in the work force also may tend to raise the average retirement age. In general, women have been late entrants into the labor force, using work as a means to escape the loneliness accompanying the empty-nest syndrome or the death of their spouse; therefore, they might not tire of work at age sixty-five like so many men who have worked all of their lives might. The passage of the Age Discrimination in Employment Act of 1978 which prohibits mandatory retirement ages under seventy for most occupations is another sign of changing opinions toward early retirement.

A survey entitled "American Attitudes Toward Pensions and Retirement" performed by Louis Harris and Associates for Johnson and Higgins, a New York employee benefits consulting firm, confirmed many of the speculations about a change in opinion toward early retirement. The study which appeared in early 1979 was based on interviews of two sample groups--a national cross-section of full time employees (1,330 currently employed and 397 retired) and business and financial executives from 212 companies on Fortune's 1000 list who deal with pension and retirement problems. The most significant result of the survey

¹¹ John Perham, "Retirement Revolution Brewing," Dun's Review, May 1979, p. 96.

was that more than one-half of today's employees would prefer to work past age sixty-five. Moreover, a majority of those polled who already had retired wished that they had not, and 88 percent of the total group of full time employees agreed that no one should be forced to retire if he is willing and able to do a good job. A great number of the employees indicated a desire to continue working well past age sixty-five in a part-time position. Harris found that the type of work done is an important factor in determining what percentage of workers want to continue working as long as possible in either a full- or part-time position. 71 percent of those self-employed workers prefer to continue working, while 53 percent of those salaried workers and 42 percent of hourly wage workers feel the same way. Harris' research has led him to the following conclusions:

The trend toward earlier and earlier retirement appears not only to be ending, but the trend is now likely to be toward postponing retirement to higher and higher ages.

The basic undeniable fact is that most Americans in this last quarter of the twentieth century want to work for the rest of their lives.¹²

The Feasibility of a Later

Retirement Age

If the Harris study is truly an indicator of things to come, two important questions arise. First, despite the increasing life expectancy and improved health, will elderly workers be physically and mentally capable of performing in an employment

¹²John Perham, "Retirement Revolution Brewing," Dun's Review, May 1979, p. 96.

situation? Second, what adjustments to current employment practices must be made to accommodate an aging work force?

The Productivity of Elderly Workers

It is undeniable that as a person advances in age, many physical and mental changes occur which may affect his ability to work efficiently. Loss of vision, impaired hearing, and lack of muscle control are among the most common physical consequences of advancing age. Mentally, elderly persons often suffer from the impairment of short-term memory. In general, sensitivity reduces gradually for nearly everyone following age fifty, although every individual ages at his own rate. In addition, by age sixty 40 percent of all workers report some kind of health problems. In fact, the frequency of illnesses seems to begin increasing for most people during their fifties.

Despite the physical and mental changes experienced by aging workers, some experts claim that older workers can be just as productive as younger ones. Although elderly workers may be physically weaker than their younger co-workers, their weakness is compensated for by an increased sense of judgment gained from valuable experience and a positive attitude toward work. Ross McFarland, a noted scholar in the field of ergonomics, accounts for the competitive productivity of older workers by saying, ". . . compensation takes place for every decline."¹³ Often, the compensation process is so complete that it is difficult to attribute any lack of performance to old age or even to detect it.

¹³Sara E. Rix, "Rethinking Retirement-Age Policy in the United States and Canada," Personnel Journal 58 (November 1979): 787.

Although these assumptions about the productivity of older workers may be true, it is important to note that elderly workers must be properly placed in jobs that they can do well. Herbert D. Werner states:

Given the abilities of older workers, it has been concluded that, with retention and job reassignment, a majority of workers are able to function in most jobs well past the age of sixty-five.¹⁴

McFarland goes even farther in his belief in the productive capacity of elderly laborers when he declares:

. . . properly placed, older workers function effectively and have greater stability on the job, fewer accidents, and less time lost.¹⁵

Although all experts in the field do not share McFarland's extremely optimistic views, Harold L. Sheppard summarizes the prevailing mood among experts concerning the productivity of the aged: "As far as ability is concerned, there is no consistent pattern of superior productivity in any age group."¹⁶ Elderly workers, when properly placed, seem to be able to work effectively to ages will beyond sixty-five.

Problems Facing an Aging Work Force

Given that the elderly can continue to work well past sixty-five and that they may very well be asked to do so, many employment problems facing the elderly must be solved. In addition,

¹⁴Herbert D. Werner, "The Age Discrimination in Employment Act Amendments of 1978 and Their Effect on Collective Bargaining," Labor Law Journal 30 (August 1979): 478.

¹⁵Sara E. Rix, "Rethinking Retirement-Age Policy in the United States and Canada," Personnel Journal 58 (November 1979): 787.

¹⁶Sara E. Rix, "Rethinking Retirement-Age Policy in the United States and Canada," Personnel Journal 58 (November 1979): 787.

the participation of elderly workers in the labor force will cause a whole new set of employment and management problems that will require serious attention.

The first obstacle in the path toward a longer working life is the prevalent attitude that older workers simply cannot work productively. In 1974 a survey sponsored by the United States National Council on Aging, more than 50 percent of those polled believed that older workers cannot perform as well as they could when they were young. This attitude is more widespread among corporate executives, according to the results of the Johnson and Higgins survey. Only one-third of the executives questioned believed that older workers remain as productive as they were in their younger days. Current management decisions concerning hiring and firing workers reflect the unhealthy opinions of many managers. Companies seldom hire workers who are older than forty. On the other end of the employment process, some managers have indicated a desire to reduce their middle-management structure, which characteristically consists of experienced workers who have spent a long time in the firm, through retirement. Management simply does not want workers "'lingering' to the final retirement day,"¹⁷ in light of the problem of eliminating mediocre workers or faltering older workers. These managers see retirement as a cleansing process that will wash away many productivity problems. Perhaps the most detrimental manifestation of this negative attitude toward older workers is the feeling of inadequacy

¹⁷Herbert D. Werner, "The Age Discrimination in Employment Act Amendments of 1978 and Their Effect on Collective Bargaining," Labor Law Journal 30 (August 1979): 478.

among older workers themselves. Aging workers may feel great anxiety concerning their ability to function productively in a competitive employment situation. Frightened by their alleged deficiencies, older workers may harm their productivity more through anxiety than through actual decreasing ability. Harmful attitudes like those mentioned must be changed if older workers are expected to remain productive for longer labor careers.

A lack of motivation for elderly workers is another problem facing workers who want to stay on the job past age sixty-five. A young worker who expects a long and exciting career is easily motivated by promotions and salary increases. He looks forward to climbing up the ladder to a more meaningful and lucrative position. On the other hand, after thirty years on the job, an older worker often is bored by his work and looks forward to retirement as an escape from more years in the same job. Regarding this problem, Sara E. Rix states: "Motivation . . . may be as relevant to any productivity decline as aging per se."¹⁸ Ultimately, bored elderly workers tend to lose their sense of job commitment, and a lower retirement age is a common symptom of a low level of commitment to one's job.

A problem confronting elderly workers that may be a major cause of both of the previously mentioned problems is the improper placement of aging laborers. As mentioned previously, the correct placement of elderly workers is essential if they are to be productive. Ross McFarland proposes an analogy that

¹⁸ Sara E. Rix, "Rethinking Retirement-Age Policy in the United States and Canada," Personnel Journal 58 (November 1979): 788.

explains this problem. McFarland purports that nearly everyone, old or young, is incapable of meeting the demands of some particular jobs. In this sense everyone is occupationally handicapped; yet, by emphasizing one's capabilities, one can move into a field in which those particular abilities will be appreciated and rewarded. McFarland sees the elderly laborers as merely occupationally handicapped individuals. Unfortunately, they are not always granted the opportunity to enter fields where their specific abilities can be utilized. Struggling against job requirements that no longer match the abilities of aging workers may contribute to the attitude that older workers simply are not as productive as other workers as well as to the serious lack of motivation faced by elderly workers. The initiation of comprehensive retraining and job transfer programs would solve much of the improper placement dilemma. Such programs would allow elderly workers to continue to grow by learning new skills and facing new challenges. Thus, any fears of inadequacy would be dispelled while elderly workers would find a new source of motivation and a sense of job commitment. In order for any job transfer program to work effectively for the elderly, however, full portability of pension benefits must become a reality. If changing jobs at a late time in one's career means forfeiting hard-earned pension benefits, few workers will take advantage of a job transfer program.

Problems Created by an Aging Labor Force

The feasibility of raising the retirement age depends not only upon the dissolution of obstacles currently impeding older

workers but also upon the solution of employment problems that will be created by an aging work force.

One of the employment institutions that will require the most urgent reform if elderly workers remain on the job past age sixty-five is the seniority system. No longer will seniority alone be an adequate criterion upon which to base promotion or job transfer decisions. In fact, it is probable that the more senior that a worker becomes, the less able he will be to handle promotions and increased job responsibilities. Thus, instead of earning promotions based on seniority, elderly workers should anticipate lateral or even lower-level job transfers since at some point in time their age will limit their work aptitude to some degree. This realization will be a bitter one for many older workers because they will have functioned under the seniority system for so many years. But if the seniority system remains the same, managers may respond to the overabundance of workers with high seniority by setting excessively high standards for promotions so that only the very best of those with seniority will rise to the upper-level positions. Although such a practice will protect the firm against a group of older workers clogging the promotional system, it may be very discouraging for both young and old workers. For the elderly workers, the lack of advancement after so many years of loyal service may be a disappointment. For the young, the road to a promotion may simply become too arduous for an ambitious worker, and his motivation and job performance levels may decline. It is conceivable that such a stringent promotion system will make it impossible for

managers to retain bright young workers.

Clearly the only solution is to eliminate much of the current seniority system in favor of a system of promotions based on personal abilities and limitations. Although a manager may consider an employee's dedication and loyalty (two factors often associated with seniority) when assessing his aptitude for a promotion, these factors should be supplemented by careful consideration of the candidate's abilities. This process demands a greater degree of management skill and dedication than the simple seniority system requires, but considering the implications of the changing work force, the extra effort will be essential.

With an increasing number of workers staying on the job past age sixty-five, companies will also have to restructure their procedures for hiring new employees and evaluating present employees. Many experts anticipate a limited number of positions available for young workers due to the increased number of older workers lingering in the labor force. And despite reforms in the seniority system, those younger workers who have jobs will face a grim future in terms of promotions because of the elderly workers who retain their upper-level jobs. Herbert D. Werner states:

A manager thus may have a difficult job attempting to retain highly productive younger people in the face of declining promotion opportunities.¹⁹

To combat these problems, firms will have to instigate new policies for hiring employees and promoting present employees.

¹⁹Herbert D. Werner, "The Age Discrimination in Employment Act Amendments of 1978 and Their Effect on Collective Bargaining," Labor Law Journal 30 (August 1979): 482.

Since workers may remain on the job for years, companies must adopt more stringent hiring practices to ensure that only the very best persons can enter the firm. Companies will also have to develop a more efficient system of performance appraisals on a career-long basis. Due to the limited employment opportunities for young workers and the expected long work life, companies will need to weed out poor performers early and transfer them to less demanding jobs or fire them. An executive in charge of human resources at American Can Company says, "The 'Good Old Charlie' syndrome is over,"²⁰ implying that companies will no longer be able to afford to retain less-than-adequate performers counting on early retirement to take them off their hands. The inefficient workers may stay on the job for an extended time, draining the company of productivity and depriving young employees of a position that they deserve. Moreover, detailed and useful job appraisals will be essential for a system of promotions based on ability rather than seniority like the one described previously.

Some experts discount the magnitude of the problems that an increasing number of elderly employees will impose on a firm's employment policies by citing two arguments. The first argument proposes that no proof exists to support the theory that every retirement yields one new job for another employee. Thus, even though more workers will delay retirement, the number of positions opening for younger workers may not necessarily decline.

²⁰ John Perham, "Retirement Revolution Brewing," Dun's Review, May 1979, p. 96.

The other argument supposes that the problem of limited employment and promotion opportunities for the young is essentially a short-term phenomenon. As time progresses, the work force will become too small due to the fact that the barren decades of the post-baby-boom era yielded fewer workers than demanded. As the demand for labor draws on the shrinking supply of workers, more opportunities will open for workers of all ages. In fact, the increasing number of elderly workers will probably be a necessity rather than a problem as the size of the labor force declines.

Important changes will also be necessary in the area of employee benefits as more workers remain on the job after age sixty-five. The proper manipulation of pension and insurance benefits may have an important impact on the aging labor force. As mentioned earlier, financial considerations are important factors in the decision to retire. Pension policies may therefore be extremely influential, and because pension plans have previously been structured around retirement at age sixty-five, employers will have to make critical decisions. The two basic choices available to firms are to freeze pension benefits for workers at age sixty-five and thus discourage extended employment or to allow pension benefits to accrue after age sixty-five, thereby encouraging extended work lives. A survey conducted by Tower, Perrin, Forster, and Crosby shows that a majority (56 percent) of 127 corporations polled planned to freeze pension benefits for those over sixty-five, 29 percent of the companies anticipated allowing pension benefits to accrue after age sixty-five, and 15 percent had not yet come to a decision. Treatment of future pension plans will

surely be an important factor in determining the nature of the future labor force, and the advancing age of the labor force will soon bring employers face-to-face with this issue.

Likewise, as the labor force gets older, changes will be necessary in the insurance packages that corporations offer as employee benefits. Those workers over age sixty-five will face different insurance needs in life, health, and disability coverage. Many corporations anticipate reducing life insurance benefits after an employee reaches age sixty-five because his need for coverage will diminish. In the area of health insurance, corporate management anticipates increased costs for adequate benefits due to the increased health hazards facing the elderly; however, Medicare may ease much of the anticipated burden.

In addition to all of the implications of an aging labor force already cited, other considerations remain. For example, many companies plan to initiate programs in pre-retirement planning. As the decision to work or retire becomes more of a choice rather than an expectation, workers will need to consider carefully all the consequences of retirement. Often, pre-retirement counseling will include the spouse in order to get a full picture of the employee's personal situation. Other considerations that will challenge companies include decisions on hours and vacation time for the elderly. Many experts wonder if older workers should be allowed to work overtime. Questions concerning increased sick time and vacation time for elderly workers also confront the employers of a labor force of senior citizens.

Conclusions

In summary, one can see that the decision to raise the retirement age will have far-reaching implications. Such a decision will require changes in public opinion, adjustments in employment policies, and restructuring of the Social Security system in order to eliminate those aspects of the program that encourage early retirement. Specifically, aging laborers must become accustomed to the idea that retiring at or before age sixty-five is simply not realistic in today's society. Employers must abandon policies based on seniority and adopt ones that encourage job commitment and high levels of motivation. And the Social Security Administration must phase out early retirement benefits, the earnings test, and benefit payments that provide an unreasonably high rate of income replacement. But the decision to raise the retirement age must be made if the Social Security system is to survive the twentieth and twenty-first centuries. Facing the monumental problem created by the demographic shift that the United States will experience, raising the benefit age is a solution which can save the system enough money to endure the crisis without cutting benefits to amounts below a level that American society has come to expect and demand. The recent trend of earlier retirement must reverse, and most sociologic, physiologic, and economic indicators reveal that there is no good reason for it not to. Older Americans profess a lack of purpose in their lives that could easily be cured by meaningful employment. Increased life expectancies and improved health care systems make most Americans perfectly capable of performing on the job well past

the age of sixty-five, and the ravaging effect of inflation on income and the threat of exorbitant payroll taxes comprise a persuasive impetus to remain in the labor force after age sixty-five. The time has come to respond to the changing nature of the American population by raising the retirement age; therefore, the implications of this action must be considered carefully.

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